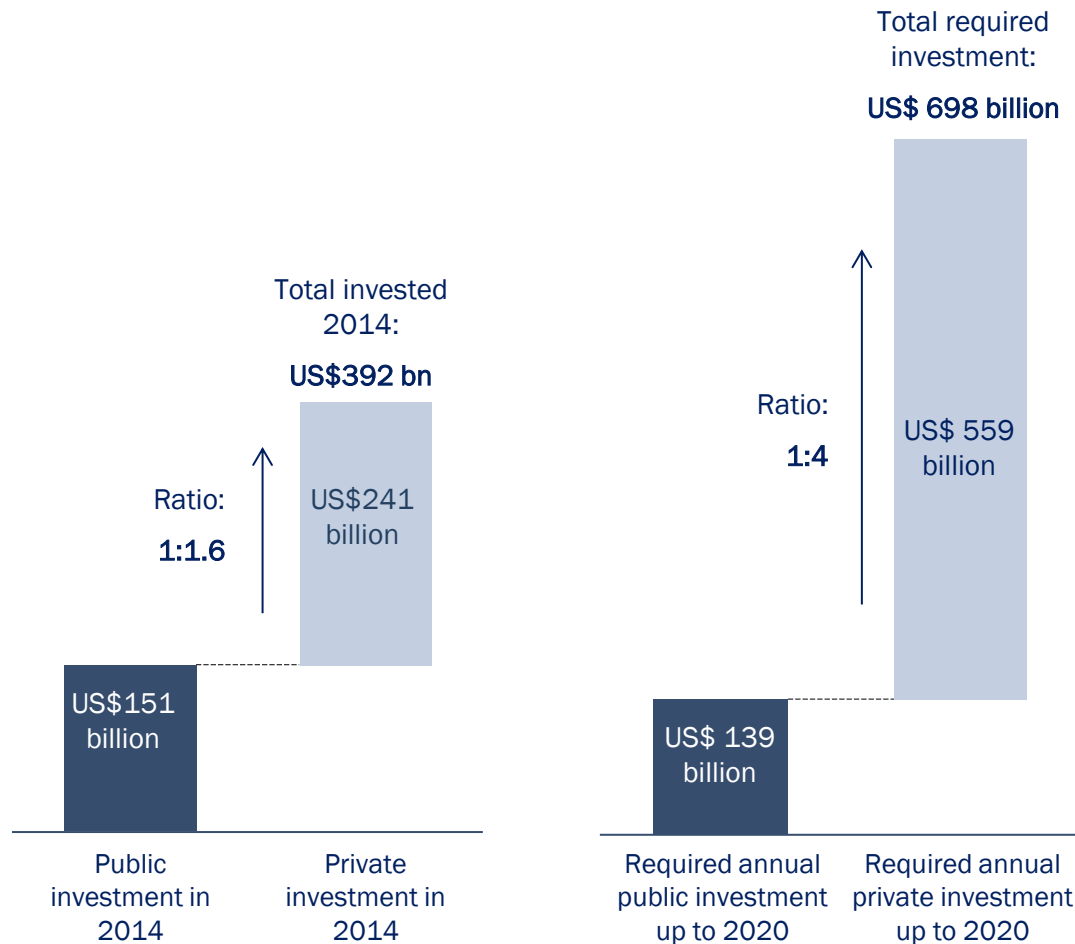




May 15, Washington DC

Private sector engagement in environmental finance

Private sector capital has a key role in environmental finance



Around **US\$400 bln** was invested in environmental finance in **2014** of which 60% was private sector funding (source: CPI)

An estimated **US\$700 bln** is required annually up to **2020** to keep global temperature increase to 2 degrees above pre-industrial levels (WEF).

Public spending is expected to remain stagnant, so additional investment should come from private sector.

This may seem staggering amounts, the capital is available: global capital markets are currently estimated at **US\$218 trillion**.

Hurdles and opportunities for private sector environmental finance

Hurdles

Inconsistent regulatory environment

- Hampering effect, especially in developing regions

Limited scale and track record

- Projects lack size and track record to access traditional capital mkt

Lack of common framework

- Fair performance judgment system does not exist

Conservative risk perspective

- Investors apply traditional risk-return models

High transaction costs

- Innovative solutions take time, patience and effort

Opportunities

Momentum of international agreements

- COP21, SDGs, Conf. on Finance for Development have positive outcome for environmental finance

Low interest rate environment

- Investors look for new opportunities with no correlation to other investments

New technologies and tools

- Monitoring has become better and affordable

Rise of impact investing

- A new asset class with double digit growth

Stakeholders appreciate the GEF for its products, knowledge and network

Flexible financing instruments

- Variety of GEF products is large and possibility to combine products (capital and TA) make it all the more appealing

Risk appetite

- With its non-profit mandate, the GEF is a perfect partner to support innovative early stage ventures

Reputation

- Involvement of the GEF can give a project an important 'seal of quality'

Knowledge

- The GEFSEC is praised for the technical expertise that its staff brings to projects

Network

- As a center of partnership between 183 countries, the GEF is an important platform for private sector players

Yet there are also points for improvement

Cumbersome approval procedures

- These procedures are too slow and complex for private sector projects

Difficult to obtain information

- Communication material is too technical and focal points are not aware of all private sector opportunities

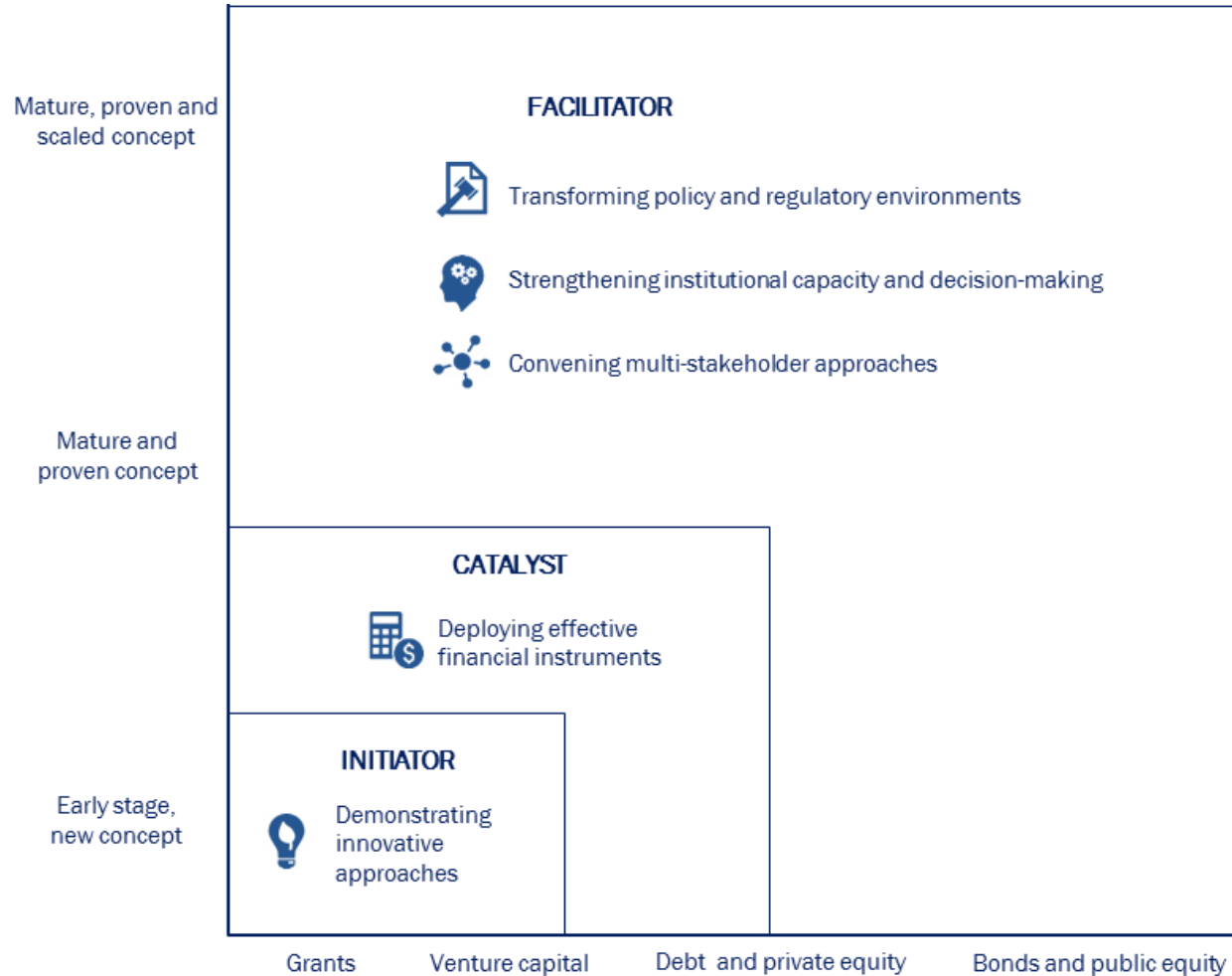
Ambiguous project requirements

- GEF's eligibility criteria provide insufficient guidance on what the GEF actually expects

Lacking private sector mindset

- GEF's focus on technical issues is sometimes disproportionate to private sector reality

Given its strengths, there are three roles for the GEF when engaging with the private sector



Actions to consider in the short term

1. Better specify the GEF's role and objectives on influencing the environmental finance landscape
2. Improve access to information on cooperation opportunities for (potential) private sector partners
3. Design a strategic and formal private sector project appraisal policy and process
4. Shorten the timelines of project approval procedures
5. Be more transparent on expectations of projects and status of approval processes
6. Improve monitoring and reporting on private sector engagement
7. Use a bottom-up approach to stimulate more private sector engagement



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GEF's private sector funding did not keep up with its public sector financing



Although private sector more than doubled since GEF's inception,
public sector funding grows at a stronger pace